

Message Text

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ACTION EB-07

INFO OCT-01 AF-06 ISO-00 FEA-01 ERDA-05 AID-05 CEA-01

CIAE-00 CIEP-01 COME-00 DODE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 /090 W

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R 101527Z JUL 75

FM AMEMBASSY LAGOS

TO SECSTATE WASHDC 125

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E.O. 11652: N/A

TAGS: ENRG, BEXP, NI

SUBJECT: OIL MARKETING, REFINERIES, AND

PIPELINES: A SITREP

REF: LAGOS 3062

1. LAGOS HAS NOT HAD SHORTAGE OF PETROLEUM PRODUCTS FOR SEVERAL WEEKS, BUT SHORTAGES ARE STILL CHRONIC UP-COUNTRY DESPITE FULL OPERATION OF THE PORT HARCOURT REFINERY FOR LAST THREE MONTHS AND RECENT OPENING OF SECOND PETROLEUM JETTY IN LAGOS/APAPA. CURRENT BOTTLENECK IS INTERNAL ROAD AND RAIL TRANSPORT. FEDERAL GOVERNMENT (AND NOT RPT NOT THE OIL COMPANIES) HAS BEEN SEVERELY CRITICIZED BY SEVERAL NEWSPAPERS. MINISTRY OF MINES AND POWER PERMANENT SECRETARY ASIODU INVITED SUCH CRITICISM BY FOOLISHLY PROMISING IN APRIL THAT THE SHORTAGES WOULD BE UNDER CONTROL BY THE END OF JUNE. ONE NEWSPAPER WENT SO FAR AS TO CALL HIM INCOMPETENT, BUT LATER THE SAME DAY, HE WAS NAMED PERMSEC OF THE YET-TO-BE-FORMED MINISTRY OF ENERGY AND PETROLEUM (SEPAIR), THUS PRESERVING HIS STRANGLE-HOLD ON PETROLEUM MATTERS FOR SOME TIME TO COME (AND ERASING ANY DOUBT ABOUT HIS POSITION WHICH

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MAY HAVE BEEN EXPRESSED IN LAGOS 5332).

2. ASIODU HAS BEEN ACTING BEHIND THE SCENES. HIS MINISTRY AT LAST RESPONDED TO THE DEMANDS OF THE OIL COMPANIES FOR RELIEF FROM IMPORT DUTIES WHICH HAD REQUIRED THEM TO SELL IMPORTED PRODUCTS AT A SIZEABLE LOSS. TWO MINI-REFINERIES WERE ORDERED (REFTEL), AND TREMENDOUS PRESSURE HAS BEEN EXERTED TO GET THE SECOND REFINERY PROJECT UNDERWAY IN WARRI. (CONTRACTS WERE EXPECTED TO BE AWARDED IN JUNE, BUT THERE HAS BEEN STILL ANOTHER SHORT DELAY.)

3. THERE IS ALSO EVIDENCE THAT A NUMBER OF OTHER REFINING AND PIPELINE CONTRACTS ARE BEING PRIVATELY NEGOTIATED ON A CRASH BASIS IN ORDER TO ACCELERATE PROJECTS WHICH WOULD CONTRIBUTE TO THE LONG-TERM SOLUTION OF THE DISTRIBUTION PROBLEM. DISCUSSIONS ARE TAKING PLACE WITH SEVERAL COMPANIES ABOUT THE THIRD REFINERY PROJECT AT KADUNA (LAGOS 5366, KADUNA 0372). IN THE IMMEDIATE OFFING ARE THREE SIZEABLE CONTRACTS WHICH WOULD CREATE A DOMESTIC PIPELINE SYSTEM FOR DISTRIBUTION OF PRODUCTS FROM THE PORT HARCOURT AND WARRI REFINERIES. LOCAL AFFILIATE OF THE WILLIAMS COMPANIES (TULSA, OKLAHOMA) CONFIRMS THAT IT IS ON VERGE OF SIGNING CONTRACT FOR DESIGN, CONSTRUCTION, AND OPERATION (FOR FIVE YEARS) OF PRODUCTS PIPELINE FROM WARRI TO LAGOS AND RPT AND IBADAN. MANNESMANN OF GERMANY HAS NEGOTIATED SIMILAR CONTRACT FOR PIPELINE FROM WARRI TO KADUNA, AND E.T.P.M. OF FRANCE IS IN LINE FOR PIPELINE FROM PORT HARCOURT TO ENUGU AND MAKURDI. (IT IS ESSENTIAL THAT THIS INFORMATION BE PROTECTED UNTIL THESE CONTRACTS HAVE BEEN ANNOUNCED.)

4. COMMENT: PROGRESS AT LAST ON SOME GOVERNMENT PROJECTS WHICH BEAR ON PETROLEUM DISTRIBUTION DOES NOT CHANGE A BASIC CAUSE OF THE PETROLEUM DISTRIBUTION CRISIS WHICH IS THAT GOVERNMENT RESTRICTIONS VIRTUALLY ELIMINATE THE POSSIBILITY OF PROFITS FROM NEW INVESTMENT BY THE SEVEN FOREIGN-OWNED OIL MARKETING COMPANIES, AND THE COMPANIES THEREFORE LACK MOTIVATION FOR CONTRIBUTING TO THE SOLUTION OF THE PROBLEM AS THEY HAVE IN THE PAST. COMPANIES WITH PRODUCTION INTERESTS IN NIGERIA (SHELL, BP, MOBIL, TEXACO, AGIP) CAN BE EXPECTED TO RESPOND PLIANTLY TO GOVERNMENT POLICIES IN THE MARKETING AREA, BUT THE OTHER MARKETING COMPANIES (ESSO AND TOTAL) WOULD PROBABLY PREFER TO LIQUIDATE THEIR OPERATIONS IN NIGERIA. ESSO LIMITED OFFICIAL USE

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HAS IN FACT ALREADY STARTED NEGOTIATING A TAKE-OVER AGREEMENT WITH THE GOVERNMENT, AND, SO FAR AS WE KNOW, TOTAL, MIGHT ALSO BE DOING THE SAME. ALTHOUGH THE EMBASSY HAS NO DOUBT THAT THE INDIVIDUAL PIPELINE AND REFINERY PROJECTS ARE BEING CARRIED OUT BY COMPETENT ENGINEERING AND CONSTRUCTION FIRMS, THE GOVERNMENT ALONE IS RESPONSIBLE FOR THEIR FEASIBILITY, FINANCE, SITING, AND COORDINATION. WITHOUT THE DISCIPLINE OF THE MARKETPLACE, THESE PROJECTS ARE GOING TO BURDEN THE NIGERIAN GOVERNMENT AND PUBLIC

WITH UNNECESSARILY HIGH COSTS.
EASUM

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